



## **THE BIG 5 FALSE BAY MUNICIPALITY**

**Annual Financial Statements  
for the year ended 30 June 2015**

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## General Information

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### Mayoral committee

Mayor

CC Gumede

Councillors

MS Msane

NF Bukhosini

CT Khumalo

F Zulu

NR Thethwayo

### Grading of local authority

Grade 1 - Low capacity

### Acting Accounting Officer

NN Shandu

### Acting Chief Finance Officer (CFO)

MP Phakathi

### Business address

163 Zebra Street

Hluhluwe

3960

### Postal address

P.O BOX 89

Hluhluwe

3960

### Bankers

First National Bank of SA

ABSA

### Auditors

The Auditor General South Africa

Private Bag X9034

3200

### Attorneys

Gosai and Company Attorneys and Conveyancers

105 Sixth Avenue

Morningside

Durban

4001

C Ngubane and Associates Inc.

17 Lennox Road

Morningside

Durban

4001

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Index

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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### Abbreviations

GRAP	Generally Recognised Accounting Practice
UIF	Unemployment Insurance Fund
SDL	Skill Development Skills
IDP	Intergrated Development Plan
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
INEG	Electrification Program Grant
EPWP	Expanded Public Works Programme
LED	Local Economic Development

# **The Big 5 False Bay Municipality**

Annual Financial Statements for the year ended 30 June 2015

## **Accounting Officer's Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

I certify that the salaries, allowances and benefits of Councillors, as disclosed in notes of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Office Bearers Act and the Minister of Local Government's determination in accordance within this act.

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**NN Shandu**  
**Acting Accounting Officer**

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014
<b>Assets</b>			
<b>Current Assets</b>			
Receivables from exchange transactions	4	37,669	90,750
Receivables from non-exchange transactions	5	6,761,289	4,597,164
VAT receivable	6	487,884	889,504
Consumer debtors	7	10,575,638	8,198,163
Cash and cash equivalents	8	116,668	558,094
		<b>17,979,148</b>	<b>14,333,675</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	2	116,230,146	106,295,848
Intangible assets	3	62,338	90,423
		<b>116,292,484</b>	<b>106,386,271</b>
<b>Total Assets</b>		<b>134,271,632</b>	<b>120,719,946</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	9	309,019	548,826
Payables from exchange transactions	12	13,405,549	10,598,823
Payables from non-exchange transactions	13	423,530	213,115
Unspent conditional grants and receipts	10	147,814	1,549,908
Bank overdraft	8	1,957,429	1,912,628
		<b>16,243,341</b>	<b>14,823,300</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	9	-	244,076
Provisions	11	5,140,649	4,737,925
		<b>5,140,649</b>	<b>4,982,001</b>
<b>Total Liabilities</b>		<b>21,383,990</b>	<b>19,805,301</b>
<b>Net Assets</b>		<b>112,887,642</b>	<b>100,914,645</b>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	16	1,465,419	1,368,236
Rental of facilities and equipment		55,215	70,921
Other income		194,846	147,886
Interest received - investment		120,808	376,773
<b>Total revenue from exchange transactions</b>		<b>1,836,288</b>	<b>1,963,816</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	15	10,619,853	8,502,732
Property rates - penalties imposed	15	1,696,469	865,823
Donation		647,404	-
<b>Transfer revenue</b>			
Government grants and subsidies	17	45,025,094	30,020,092
Fines		4,869,897	10,019,750
<b>Total revenue from non-exchange transactions</b>		<b>62,858,717</b>	<b>49,408,397</b>
<b>Total revenue</b>	14	<b>64,695,005</b>	<b>51,372,213</b>
<b>Expenditure</b>			
Employee related costs	19	15,446,976	12,859,611
Remuneration of councillors	20	1,812,347	1,707,472
Depreciation and amortisation	23	2,989,666	3,241,550
Impairment loss	24	-	123
Finance costs	25	575,935	608,966
Debt impairment	21	3,961,346	6,136,826
Repairs and maintenance		1,905,604	143,024
Contracted services	27	1,350,482	881,889
Conditional Grants (operational)	28	9,827,923	3,857,172
General Expenses	18	14,851,729	13,238,304
<b>Total expenditure</b>		<b>52,722,008</b>	<b>42,674,937</b>
<b>Surplus for the year</b>		<b>11,972,997</b>	<b>8,697,276</b>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	93,511,546	93,511,546
Adjustments		
Correction of errors, refer to note 32	(1,294,177)	(1,294,177)
<b>Balance at 01 July 2013 as restated</b>	<b>92,217,369</b>	<b>92,217,369</b>
Changes in net assets		
Restated surplus for the year	8,697,276	8,697,276
Total changes	8,697,276	8,697,276
<b>Balance at 01 July 2014</b>	<b>100,914,645</b>	<b>100,914,645</b>
Changes in net assets		
Surplus for the year	11,972,997	11,972,997
Total changes	11,972,997	11,972,997
<b>Balance at 30 June 2015</b>	<b>112,887,642</b>	<b>112,887,642</b>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Cash Flow Statement

Figures in Rand	Note(s)	2015	2014
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Cash receipts from ratepayers, government grants and other		59,839,768	44,366,669
Interest income		120,808	376,773
<b>Payments</b>			
Cash paid to suppliers and employees		(46,032,259)	(38,400,974)
Finance costs		(173,211)	(608,966)
		(46,205,470)	(39,009,940)
Total receipts		59,960,576	44,743,442
Total payments		(46,205,470)	(39,009,940)
<b>Net cash flows from operating activities</b>	29	<b>13,755,106</b>	<b>5,733,502</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	2	(12,345,356)	(8,791,333)
Purchase of other intangible assets	3	(10,000)	(5,100)
<b>Net cash flows from investing activities</b>		<b>(12,355,356)</b>	<b>(8,796,433)</b>
<b>Cash flows from financing activities</b>			
Movement in Unspent conditional Grant		(1,402,094)	1,549,908
Movement in finance leases		(483,883)	(434,384)
<b>Net cash flows from financing activities</b>		<b>(1,885,977)</b>	<b>1,115,524</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(486,227)</b>	<b>(1,947,407)</b>
Cash and cash equivalents at the beginning of the year		(1,354,534)	592,873
<b>Cash and cash equivalents at the end of the year</b>	8	<b>(1,840,761)</b>	<b>(1,354,534)</b>



# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	1,566,000	-	<b>1,566,000</b>	1,465,419	<b>(100,581)</b>	Appendix F
Rental of facilities and equipment	106,000	-	<b>106,000</b>	55,215	<b>(50,785)</b>	Appendix F
Other income	156,200	-	<b>156,200</b>	194,846	<b>38,646</b>	Appendix F
Interest received - investment	-	150,000	<b>150,000</b>	120,808	<b>(29,192)</b>	Appendix F
<b>Total revenue from exchange transactions</b>	<b>1,828,200</b>	<b>150,000</b>	<b>1,978,200</b>	<b>1,836,288</b>	<b>(141,912)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	9,745,000	-	<b>9,745,000</b>	10,619,853	<b>874,853</b>	Appendix F
Property rates - penalties imposed	739,000	-	<b>739,000</b>	1,696,469	<b>957,469</b>	
Donation	-	-	-	647,404	<b>647,404</b>	
Government grants and subsidies	33,874,000	-	<b>33,874,000</b>	45,025,094	<b>11,151,094</b>	Appendix F
<b>Transfer revenue</b>						
Fines	4,000,000	6,000,000	<b>10,000,000</b>	4,869,897	<b>(5,130,103)</b>	Appendix F
Sale on property, plant and equipment	2,000,000	-	<b>2,000,000</b>	-	<b>(2,000,000)</b>	Appendix F
<b>Total revenue from non-exchange transactions</b>	<b>50,358,000</b>	<b>6,000,000</b>	<b>56,358,000</b>	<b>62,858,717</b>	<b>6,500,717</b>	
'Total revenue from exchange transactions'	1,828,200	150,000	<b>1,978,200</b>	1,836,288	<b>(141,912)</b>	Appendix F
'Total revenue from non-exchange transactions'	50,358,000	6,000,000	<b>56,358,000</b>	62,858,717	<b>6,500,717</b>	Appendix F
<b>Total revenue</b>	<b>52,186,200</b>	<b>6,150,000</b>	<b>58,336,200</b>	<b>64,695,005</b>	<b>6,358,805</b>	
<b>Expenditure</b>						
Employee related costs	(16,714,582)	585,621	<b>(16,128,961)</b>	(15,446,976)	<b>681,985</b>	Appendix F
Remuneration of councillors	(1,759,996)	-	<b>(1,759,996)</b>	(1,812,347)	<b>(52,351)</b>	Appendix F
Depreciation and amortisation	(2,000,000)	(1,500,000)	<b>(3,500,000)</b>	(2,989,666)	<b>510,334</b>	Appendix F
Finance costs	(150,000)	(50,000)	<b>(200,000)</b>	(575,935)	<b>(375,935)</b>	Appendix F
Debt impairment	(2,000,000)	(4,500,000)	<b>(6,500,000)</b>	(3,961,346)	<b>2,538,654</b>	Appendix F
Repairs and maintenance	(3,700,000)	1,700,000	<b>(2,000,000)</b>	(1,905,604)	<b>94,396</b>	Appendix F
Contracted Services	(14,991,000)	(760,000)	<b>(15,751,000)</b>	(1,350,482)	<b>14,400,518</b>	Appendix F
Conditional Grant (operational)	(180,000)	-	<b>(180,000)</b>	(9,827,923)	<b>(9,647,923)</b>	Appendix F
General Expenses	(10,139,000)	(3,110,215)	<b>(13,249,215)</b>	(14,851,729)	<b>(1,602,514)</b>	Appendix F
<b>Total expenditure</b>	<b>(51,634,578)</b>	<b>(7,634,594)</b>	<b>(59,269,172)</b>	<b>(52,722,008)</b>	<b>6,547,164</b>	
<b>Surplus for the year</b>	<b>551,622</b>	<b>(1,484,594)</b>	<b>(932,972)</b>	<b>11,972,997</b>	<b>12,905,969</b>	

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Receivables from exchange transactions	980,000	-	<b>980,000</b>	37,675	<b>(942,325)</b>	Appendix F
Receivables from non-exchange transactions	-	-	-	6,761,289	<b>6,761,289</b>	Appendix F
VAT receivable	-	-	-	487,884	<b>487,884</b>	Appendix F
Consumer debtors	5,582,000	12,718,000	<b>18,300,000</b>	10,575,638	<b>(7,724,362)</b>	Appendix F
Cash and cash equivalents	2,116,000	(2,072,000)	<b>44,000</b>	116,668	<b>72,668</b>	Appendix F
	<b>8,678,000</b>	<b>10,646,000</b>	<b>19,324,000</b>	<b>17,979,154</b>	<b>(1,344,846)</b>	
<b>Non-Current Assets</b>						
Property, plant and equipment	116,872,547	(1,117,211)	<b>115,755,336</b>	116,230,146	<b>474,810</b>	Appendix F
Intangible assets	168,000	-	<b>168,000</b>	62,338	<b>(105,662)</b>	Appendix F
	<b>117,040,547</b>	<b>(1,117,211)</b>	<b>115,923,336</b>	<b>116,292,484</b>	<b>369,148</b>	
Non-Current Assets	8,678,000	10,646,000	<b>19,324,000</b>	17,979,154	<b>(1,344,846)</b>	Appendix F
Current Assets	117,040,547	(1,117,211)	<b>115,923,336</b>	116,292,484	<b>369,148</b>	Appendix F
Non-current assets held for sale (and) (assets of disposal groups)	-	-	-	-	-	
<b>Total Assets</b>	<b>125,718,547</b>	<b>9,528,789</b>	<b>135,247,336</b>	<b>134,271,638</b>	<b>(975,698)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Finance lease obligation	1,050,000	-	<b>1,050,000</b>	309,019	<b>(740,981)</b>	Appendix F
Payables from exchange transactions	4,000,000	8,775,789	<b>12,775,789</b>	13,405,549	<b>629,760</b>	Appendix F
Taxes and transfers payable (non-exchange)	-	-	-	423,530	<b>423,530</b>	Appendix F
Unspent conditional grants and receipts	-	-	-	147,814	<b>147,814</b>	Appendix F
Bank overdraft	-	-	-	1,957,429	<b>1,957,429</b>	Appendix F
	<b>5,050,000</b>	<b>8,775,789</b>	<b>13,825,789</b>	<b>16,243,341</b>	<b>2,417,552</b>	
<b>Non-Current Liabilities</b>						
Provisions	4,200,000	244,000	<b>4,444,000</b>	5,140,649	<b>696,649</b>	Appendix F
	5,050,000	8,775,789	<b>13,825,789</b>	16,243,341	<b>2,417,552</b>	
	4,200,000	244,000	<b>4,444,000</b>	5,140,649	<b>696,649</b>	
	-	-	-	-	-	
<b>Total Liabilities</b>	<b>9,250,000</b>	<b>9,019,789</b>	<b>18,269,789</b>	<b>21,383,990</b>	<b>3,114,201</b>	
Assets	125,718,547	9,528,789	<b>135,247,336</b>	134,271,638	<b>(975,698)</b>	Appendix F
Liabilities	(9,250,000)	(9,019,789)	<b>(18,269,789)</b>	(21,383,990)	<b>(3,114,201)</b>	Appendix F
<b>Net Assets</b>	<b>116,468,547</b>	<b>509,000</b>	<b>116,977,547</b>	<b>112,887,648</b>	<b>(4,089,899)</b>	

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1. Basis of presentation

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Trade receivables and loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 11 - Provisions.

##### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

##### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### VAT

VAT Receivable is the Net Receivable from all VAT Control Account.

Vat is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

### 1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Roads and paving	30
Buildings	30
Pedestrian Malls	30
Electricity	10 - 50
Furniture and fixtures	7 - 10
Motor vehicles	
• Specialist vehicles	7 - 10
• Other vehicle	5 - 7

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.4 Property, plant and equipment (continued)

Office equipment	3 - 7
Watercraft	15
Recreational facilities	20 - 30
Bins and containers	5
Specialised and plant and equipment	7 - 15
Other items of plant and machinery	2 - 5
Landfill sites	20

The residual value, the useful life and depreciation method of each asset are reviewed at least at of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Property, plant and equipment which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from a municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

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### 1.6 Intangible assets (continued)

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	2 - 5years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### 1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

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### 1.7 Financial instruments (continued)

#### Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost

#### Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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### 1.7 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility in the case of a financial asset.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.



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### 1.7 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

### Derecognition

#### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

#### Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

### 1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

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### 1.8 Leases (continued)

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. However, if the lease term has expired the actual amount incurred is recognised as an expense and commitments will be one years worth of expenditure estimated from the current information available.

### 1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

# The Big 5 False Bay Municipality

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### 1.9 Impairment of cash-generating assets (continued)

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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### 1.9 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.10 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

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### 1.10 Impairment of non-cash-generating assets (continued)

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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### 1.11 Employee benefits

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

### 1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

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### 1.12 Provisions and contingencies (continued)

Provisions are not recognised for future operating deficits.

If a municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when a municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.13 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

### 1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.



# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.14 Revenue from non-exchange transactions (continued)

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Collection charges and penalties

Collection charges and penalty interest is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with the relevant legal requirements (if applicable).

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.14 Revenue from non-exchange transactions (continued)

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by debtors.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the municipality.

#### Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

#### Services in-kind

Services in-kind are not recognised.

### 1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year Refer to note 33 for details.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.17 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.19 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.20 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

Events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the financial statements.

### 1.21 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

### 1.22 Budget information

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2014 to 30/06/2015.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.23 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

# **The Big 5 False Bay Municipality**

Annual Financial Statements for the year ended 30 June 2015

## **Accounting Policies**

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### **1.23 Related parties (continued)**

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### **1.24 Grants in aid**

The Municipality receives money from other sector departments to spend on free basic services and other expenses relating to the grant received.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving rise to the transfer occurred.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand

2015

2014

### 2. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	24,340,400	-	24,340,400	24,340,400	-	24,340,400
Buildings	48,240,057	(7,471,567)	40,768,490	48,179,080	(5,858,131)	42,320,949
Furniture and fixtures	1,759,203	(196,135)	1,563,068	302,393	(182,434)	119,959
Motor vehicles	3,494,898	(1,894,519)	1,600,379	2,847,495	(1,610,603)	1,236,892
Office equipment	817,550	(652,398)	165,152	1,074,080	(804,566)	269,514
IT equipment	838,031	(527,875)	310,156	923,079	(565,953)	357,126
Infrastructure	27,316,336	(7,434,616)	19,881,720	27,316,336	(6,714,974)	20,601,362
Community	8,000	(3,467)	4,533	8,000	(3,201)	4,799
Assets under construction	27,596,248	-	27,596,248	17,044,847	-	17,044,847
<b>Total</b>	<b>134,410,723</b>	<b>(18,180,577)</b>	<b>116,230,146</b>	<b>122,035,710</b>	<b>(15,739,862)</b>	<b>106,295,848</b>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand

### 2. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals / Assets written off	Depreciation	Impairment (loss) / gain	Total
Land	24,340,400	-	-	-	-	24,340,400
Buildings	42,320,949	60,976	-	(1,613,435)	-	40,768,490
Furniture and fixtures	119,959	1,628,343	(31,250)	(153,984)	-	1,563,068
Motor vehicles	1,236,892	647,404	-	(283,917)	-	1,600,379
Office equipment	269,514	-	(50,075)	(54,287)	-	165,152
IT equipment	357,126	104,636	(25,505)	(126,224)	123	310,156
Infrastructure	20,601,362	-	-	(719,642)	-	19,881,720
Community	4,799	-	-	(266)	-	4,533
Assets under construction	17,044,847	10,551,401	-	-	-	27,596,248
	<b>106,295,848</b>	<b>12,992,760</b>	<b>(106,830)</b>	<b>(2,951,755)</b>	<b>123</b>	<b>116,230,146</b>

#### Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Newly identified assets	Disposals / Assets written off	Transfers	Depreciation	Impairment (loss) / gain	Total
Land	24,340,400	-	-	-	-	-	-	24,340,400
Buildings	36,827,504	280,031	-	-	6,624,561	(1,411,147)	-	42,320,949
Furniture and fixtures	164,593	6,550	1,459	(6,853)	-	(45,790)	-	119,959
Motor vehicles	1,490,152	-	-	-	-	(253,260)	-	1,236,892
Office equipment	349,008	15,696	30,097	(6,737)	-	(118,550)	-	269,514
IT equipment	338,089	120,978	21,020	(2,826)	-	(120,012)	(123)	357,126
Infrastructure	21,806,304	-	-	-	-	(1,204,942)	-	20,601,362
Community	5,066	-	-	-	-	(267)	-	4,799
Assets under construction	15,353,906	8,315,502	-	-	(6,624,561)	-	-	17,044,847
	<b>100,675,022</b>	<b>8,738,757</b>	<b>52,576</b>	<b>(16,416)</b>	<b>-</b>	<b>(3,153,968)</b>	<b>(123)</b>	<b>106,295,848</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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### 3. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	539,385	(477,047)	62,338	530,875	(440,452)	90,423

#### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Disposal / Assets written off	Amortisation	Total
Computer software, other	90,423	10,000	(174)	(37,911)	62,338

#### Reconciliation of intangible assets - 2014

	Opening balance	Additions	Disposal / Assets written off	Amortisation	Total
Computer software, other	173,499	5,100	(594)	(87,582)	90,423

#### Other information

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality

### 4. Receivables from exchange transactions

Consumer debtors - Rentals	8,700	7,747
Prepaid expenses	2,230	54,687
Sundry debtors	26,739	28,316
	<b>37,669</b>	<b>90,750</b>

### 5. Receivables from non-exchange transactions

Gross fines	13,522,578	9,137,853
Less: Allowance for impairment	(6,761,289)	(4,540,689)
<b>Net balance</b>	<b>6,761,289</b>	<b>4,597,164</b>

#### Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	4,540,689	-
Provision for impairment	2,220,600	4,540,689
	<b>6,761,289</b>	<b>4,540,689</b>

### 6. VAT receivable

VAT	487,884	889,504
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# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>7. Consumer debtors</b>		
<b>Gross balances</b>		
Consumer debtors	17,425,222	13,307,001
<b>Less: Allowance for impairment</b>		
Consumer debtors	(6,849,584)	(5,108,838)
<b>Net balance</b>		
Consumer debtors	10,575,638	8,198,163
<b>Summary of debtors by customer classification</b>		
<b>Consumers and place of worship</b>		
Current (0 - 30 days)	258,149	219,901
31 - 60 days	247,945	213,656
61 - 90 days	143,323	201,765
91 - 120 days	222,286	199,586
121 - 150 days	217,723	126,181
> 151 days	8,013,757	6,126,145
	9,103,183	7,087,234
Less: Allowance for impairment	(4,255,548)	(3,547,912)
	<b>4,847,635</b>	<b>3,539,322</b>
<b>Agriculture and commercial</b>		
Current (0 - 30 days)	480,915	499,870
31 - 60 days	287,007	350,317
61 - 90 days	198,565	289,564
91 - 120 days	207,403	272,201
121 - 150 days	201,015	205,733
> 151 days	4,700,229	2,960,763
	6,075,134	4,578,448
Less: Allowance for impairment	(2,594,036)	(1,811,741)
	<b>3,481,098</b>	<b>2,766,707</b>
<b>National and provincial government</b>		
Current (0 - 30 days)	40,960	39,271
31 - 60 days	63,895	62,588
61 - 90 days	27,249	58,326
91 - 120 days	59,272	56,031
121 - 150 days	58,350	47,933
> 151 days	1,997,179	1,377,166
	<b>2,246,905</b>	<b>1,641,315</b>
<b>Total</b>		
Current (0 - 30 days)	780,024	759,042
31 - 60 days	598,847	626,561
61 - 90 days	369,137	549,656
91 - 120 days	488,961	527,819
121 - 150 days	477,088	279,846
> 151 days	14,711,165	10,564,076
	17,425,222	13,307,000
	(6,849,584)	(5,108,837)
	<b>10,575,638</b>	<b>8,198,163</b>



# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>7. Consumer debtors (continued)</b>		
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(5,108,838)	(4,218,058)
Contributions to allowance	(1,740,746)	(890,780)
	<b>(6,849,584)</b>	<b>(5,108,838)</b>
<b>8. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	4,295	1,990
Call account	43,680	332,239
Other bank balances	13,765	170,037
Short Term Investment	54,928	53,828
Bank overdraft	(1,957,429)	(1,912,628)
	<b>(1,840,761)</b>	<b>(1,354,534)</b>
Current assets	116,668	558,094
Current liabilities	(1,957,429)	(1,912,628)
	<b>(1,840,761)</b>	<b>(1,354,534)</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
First National Bank (Primary bank account) - 62022340385	(1,957,429)	(1,912,628)	6,403	(1,957,429)	(1,912,628)	6,403
First National Bank (Call account) - 62075347396	13,765	170,037	14,199	13,765	170,037	14,199
First National Bank (Money market account) - 62214360068	43,680	332,239	15,723	43,680	332,239	15,723
First National Bank (Money market account) - 62191984949	-	-	345	-	-	345
First National Bank (Money market account) - 62196695533	-	-	4,673	-	-	4,673
First National Bank (Money market account) - 62174958276	-	-	3,972	-	-	3,972
ABSA Bank (Short Term Investment) - 9109586760	54,928	53,828	547,558	54,928	53,828	547,558
<b>Total</b>	<b>(1,845,056)</b>	<b>(1,356,524)</b>	<b>592,873</b>	<b>(1,845,056)</b>	<b>(1,356,524)</b>	<b>592,873</b>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>9. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	309,019	548,826
- in second to fifth year inclusive	-	244,076
<b>Present value of minimum lease payments</b>	<b>309,019</b>	<b>792,902</b>
<b>Present value of minimum lease payments due</b>		
- within one year	309,019	548,826
- in second to fifth year inclusive	-	244,076
	<b>309,019</b>	<b>792,902</b>
Non-current liabilities	-	244,076
Current liabilities	309,019	548,826
	<b>309,019</b>	<b>792,902</b>

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 3 years and the average effective borrowing rate was 11% (2014: 11%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 2.

### 10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

<b>Unspent conditional grants and receipts</b>		
MIG Grants	-	1,406,944
EPWP Grant	145,863	-
INEG (Electrification Programme Grant)	1,951	-
Integrated Development Plan Grant	-	142,964
	<b>147,814</b>	<b>1,549,908</b>

### 11. Provisions

#### Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Land fill site Provision	4,737,925	402,724	5,140,649

#### Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Land fill site Provision	4,366,751	371,174	4,737,925

The provision for rehabilitation of landfill site relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted at 8.5%, over an average period of 8 years.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>12. Payables from exchange transactions</b>		
Trade payables	6,428,665	4,514,413
Site deposit	2,513,925	2,513,925
Retention	1,891,767	1,190,808
Provision for leave pay	1,269,857	1,223,490
13th cheque accrual	319,907	304,409
Unallocated deposits	1,118	1,118
Other creditors	980,310	850,660
	<b>13,405,549</b>	<b>10,598,823</b>
<b>13. Payables from non-exchange transactions</b>		
Deposits received	5,897	3,529
Debtors paid in advance	417,633	209,586
	<b>423,530</b>	<b>213,115</b>
<b>14. Revenue</b>		
Service charges	1,465,419	1,368,236
Rental of facilities and equipment	55,215	70,921
Other income	194,846	147,886
Interest received - investment	120,808	376,773
Property rates	10,619,853	8,502,732
Property rates - penalties imposed	1,696,469	865,823
Donations	647,404	-
Government grants and subsidies	45,025,094	30,020,092
Fines	4,869,897	10,019,750
	<b>64,695,005</b>	<b>51,372,213</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	1,465,419	1,368,236
Rental of facilities and equipment	55,215	70,921
Other income	194,846	147,886
Interest received - investment	120,808	376,773
	<b>1,836,288</b>	<b>1,963,816</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	10,619,853	8,502,732
Property rates - penalties imposed	1,696,469	865,823
Donations	647,404	-
<b>Transfer revenue</b>		
Government grants and subsidies	45,025,094	30,020,092
Fines	4,869,897	10,019,750
	<b>62,858,717</b>	<b>49,408,397</b>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>15. Property rates</b>		
<b>Rates received</b>		
Residential, Commercial and Government	10,619,853	8,502,732
	<u>10,619,853</u>	<u>8,502,732</u>
Property rates - penalties imposed	1,696,469	865,823
	<u>12,316,322</u>	<u>9,368,555</u>
<b>16. Service charges</b>		
Refuse removal	<u>1,465,419</u>	<u>1,368,236</u>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>17. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	22,484,944	17,275,000
Financial Management Grant	1,800,000	1,650,000
Expanded Public Work Programme Grant	854,137	-
Municipal Systems Improvement Grant	934,000	890,000
Library Grant	655,000	630,000
Electrification Program Grant	6,998,049	-
Intergrated Development Plan Grant	142,964	57,036
	<u>33,869,094</u>	<u>20,502,036</u>
<b>Capital grants</b>		
Municipal Infrastructure Grant	11,156,000	9,518,056
	<u>45,025,094</u>	<u>30,020,092</u>
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	1,406,944	-
Current - year receipts	11,156,000	10,925,000
Transfer to Equitable share	(1,406,944)	(9,518,056)
Condition met - transfer to revenue	(11,156,000)	-
<b>Conditions still to be met</b>	<u>-</u>	<u>1,406,944</u>
<b>Financial Management Grant</b>		
Current - year receipts	1,800,000	1,650,000
Conditions met - transferred to revenue	(1,800,000)	(1,650,000)
<b>Conditions still to be met</b>	<u>-</u>	<u>-</u>
<b>Municipal Systems Improvement Grant</b>		
Current - year receipts	934,000	890,000
Conditions met - transferred to revenue	(934,000)	(890,000)
<b>Conditions still to be met</b>	<u>-</u>	<u>-</u>
<b>EPWP - Expanded Public Work Programme Grant</b>		
Current - year receipts	1,000,000	-
Conditions met - transferred to revenue	(854,137)	-
<b>Conditions still to be met</b>	<u>145,863</u>	<u>-</u>
<b>Library Grant</b>		
Current - year receipts	655,000	630,000
Conditions met - transferred to revenue	(655,000)	(630,000)
<b>Conditions still to be met</b>	<u>-</u>	<u>-</u>
<b>INEG - Electrification Programme Grant</b>		
Current - year receipts	7,000,000	-
Conditions met - transferred to revenue	(6,998,049)	-
<b>Conditions still to be met</b>	<u>1,951</u>	<u>-</u>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>17. Government grants and subsidies (continued)</b>		
<b>Intergrated Development Plan Grant</b>		
Balance unspent at beginning of year	142,964	-
Current - year receipts	-	200,000
Conditions met - transferred to revenue	(142,964)	(57,036)
<b>Conditions still to be met</b>	<b>-</b>	<b>142,964</b>
<b>18. General expenses</b>		
Publicity	257,229	253,312
Audit remuneration	2,295,474	1,592,735
Bank charges	61,695	69,923
Consumables	58,011	22,751
Upliftment programme	-	10,790
Audit committee	273,041	224,949
Entertainment	79,993	37,270
Insurance	122,041	104,185
Legal fees	58,561	33,590
Computer expenses	92,676	424,159
Lease rentals on operating lease	708,427	923,797
Scrapping loss	106,830	17,011
Disaster management	566,949	984,362
Fuel and oil	521,206	374,135
Courier and postage	205,680	164,422
License fees - vehicles	86,994	61,972
Printing and stationery	158,607	91,090
Traffic warden programme	802,450	-
Security	3,653,709	2,315,801
Sport and recreation	10,500	4,500
Subscriptions and membership fees	507,951	500,526
Telephone and fax	345,189	308,037
Training	772,105	320,297
Local travel and subsistence	931,958	712,533
Minor assets	138,555	40,536
Electricity	377,589	333,648
Uniforms	14,098	22,657
Events and social projects	182,979	214,899
Bursaries	5,413	35,354
Council support	-	4,000
Consultant fees	305,200	636,265
Valuation roll	115,000	2,263,000
IDP Review	300,701	14,400
Grants and donations	112,195	20,000
Communication strategy	174,298	-
LED Projects	195,800	5,000
Other expenses	252,625	96,398
	<b>14,851,729</b>	<b>13,238,304</b>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>19. Employee related costs</b>		
Basic	11,522,426	9,925,743
Bonus	657,573	449,667
Medical aid and pension - company contributions	2,241,816	1,506,968
UIF	83,260	70,443
SDL	124,504	103,070
Leave pay provision charge	442,423	522,762
Overtime payments	57,793	-
SALBC	-	20,413
Group life	317,181	260,545
	<b>15,446,976</b>	<b>12,859,611</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration	692,333	679,833
Car Allowance	110,000	120,000
Contributions to UIF, Medical and Pension Funds	11,149	9,591
	<b>813,482</b>	<b>809,424</b>
<b>Remuneration of chief financial officer</b>		
Annual Remuneration	594,476	549,794
Car Allowance	179,962	170,056
Contributions to UIF, Medical and Pension Funds	9,183	8,643
	<b>783,621</b>	<b>728,493</b>
<b>Remuneration of corporate services director</b>		
Annual Remuneration	774,438	719,850
Contributions to UIF, Medical and Pension Funds	9,543	8,983
	<b>783,981</b>	<b>728,833</b>
<b>Remuneration of director community services</b>		
Annual Remuneration	99,579	531,794
Car Allowance	32,994	188,056
Contributions to UIF, Medical and Pension Funds	2,691	8,643
	<b>135,264</b>	<b>728,493</b>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>20. Remuneration of councillors</b>		
Councillors	1,079,741	1,036,456
Chairperson of Section 79 Committee	179,851	308,193
Mayor	552,755	362,823
	<b>1,812,347</b>	<b>1,707,472</b>
<b>In-kind benefits</b>		
The Mayor is provided with an office and secretarial support at the cost of the Council.		
The Mayor has use of a Council owned vehicle for official duties.		
The Mayor has two full-time bodyguards.		
<b>21. Debt impairment</b>		
Debt impairment - consumers debtor	1,740,746	1,596,137
Debts impairment - Traffic fines	2,220,600	4,540,689
	<b>3,961,346</b>	<b>6,136,826</b>
<b>22. Interest earned</b>		
<b>Interest revenue</b>		
External investments	120,808	376,773
<b>23. Depreciation and amortisation</b>		
Property, plant and equipment	2,951,758	3,153,968
Intangible assets	37,908	87,582
	<b>2,989,666</b>	<b>3,241,550</b>
<b>24. Impairment of assets</b>		
<b>Impairments</b>		
Property, plant and equipment	-	123
<b>25. Finance costs</b>		
Interest paid - Finance leases	65,943	112,864
Other interest	232,196	-
Discounting factor on provisions	277,796	496,102
	<b>575,935</b>	<b>608,966</b>
<b>26. Auditors' remuneration</b>		
Fees	2,295,474	1,592,735
<b>27. Contracted services</b>		
Other Contractors	1,350,482	881,889



# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>28. Conditional Grants (operational)</b>		
Library Grant expenditure	422,446	399,242
Municipal System Improvement Grant	856,790	885,514
Financial Management Grant	1,903,114	1,835,638
Sport and Recreation expenditure	272,023	166,603
INEG (Electrification Programme Grant)	5,530,525	570,175
EPWP (Expanded Public Work Programme Grant)	843,025	-
	<b>9,827,923</b>	<b>3,857,172</b>
<b>29. Cash generated from operations</b>		
Surplus	11,972,997	8,697,276
<b>Adjustments for:</b>		
Depreciation and amortisation	2,989,666	3,241,550
Finance costs - Finance leases	575,935	608,966
Impairment loss	-	123
Debt impairment	3,961,346	-
Movements in provisions	-	371,174
Investment income	-	(376,773)
Other non-cash items	(771,250)	374,606
Scrapping loss	-	17,011
Receivables from exchange transactions	53,078	328,594
Consumer debtors	(6,282,346)	(2,889,224)
Other receivables from non-exchange transactions	(2,164,125)	(4,597,164)
Payables from exchange transactions	2,807,770	(598,769)
VAT	401,620	420,890
Taxes and transfers payable (non exchange)	210,415	135,242
	<b>13,755,106</b>	<b>5,733,502</b>
<b>30. Operational commitments</b>		
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	708,427	661,879

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable. The lease payments are recognised as an expense in the statement of financial performance over the lease term on a straight-line basis.

### 31. Related parties

Relationships

Members of key management. Refer to notes 19 and 20.

#### Related party transactions

There were no related party transactions that occurred during the financial year.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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### 32. Prior period errors

Adjustments were made for the following reasons:

Trust consumer debtors was erroneously billed within 10 year period, which contradicts with Municipal Property Rates Act.

The correction of the error(s) results in adjustments as follows:

#### Statement of financial position

Consumer debtors	(1,900,978)
<b>Accumulated Surplus or Deficit</b>	
- 2013 year effect	(1,294,177)
- 2014 year effect	(1,106,801)
<b>Accumulated Surplus or Deficit</b>	<b>(2,400,978)</b>

### 33. Comparative figures

Budget information in accordance with GRAP 1 and 24, has been provided in the statement of comparison of budget and actual to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

The effects of the reclassification are as follows:

#### Group life

Previously disclosed	372,660
Reclassification to printing and stationery	(91,090)
<b>Restated balance</b>	<b>281,570</b>

#### Printing and stationery

Previously disclosed	-
Reclassification - printing and stationery from Group life	91,090
<b>Restated balance</b>	<b>91,090</b>

#### Consumer debtors

Previously disclosed	10,099,140
Prior period error	(1,900,978)
<b>Restated balance</b>	<b>8,198,162</b>

#### Accumulated surplus

Previously disclosed	103,315,623
Prior period error	(2,400,978)
<b>Restated balance</b>	<b>100,914,645</b>

#### Employee costs

Previously disclosed	12,578,041
Reclassification - printing and stationery from Group life	281,570
<b>Restated balance</b>	<b>8,502,732</b>

#### Repairs and maintenance

Previously disclosed	133,150
Reclassification from other expenses	9,874
<b>Restated balance</b>	<b>143,024</b>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>33. Comparative figures (continued)</b>		
<b>Property rates</b>		
Previously disclosed	9,109,533	
Correction of an error	(606,801)	
Restated balance	<u>8,502,732</u>	
<b>Valuation roll</b>		
Previously disclosed	-	
Reclassification from other expenses	2,263,000	
Restated balance	<u>2,263,000</u>	
<b>IDP review</b>		
Previously disclosed	-	
Reclassification from other expenses	14,400	
Restated balance	<u>14,400</u>	
<b>Grants and donations</b>		
Previously disclosed	-	
Reclassification from other expenses	20,000	
Restated balance	<u>20,000</u>	
<b>LED project</b>		
Previously disclosed	-	
Reclassification from other expenses	5,000	
Restated balance	<u>5,000</u>	
<b>Other expenses</b>		
Previously disclosed	2,408,672	
Reclassification to valuation roll	(2,263,000)	
Reclassification to IDP review	(14,400)	
Reclassification to grants and donations	(20,000)	
Reclassification to LED project	(5,000)	
Reclassification to Repairs and maintenance	(9,874)	
Restated balance	<u>96,398</u>	
<b>Payables from exchange transactions</b>		
Previously disclosed	10,098,823	
Correction of an error	500,000	
Restated balance	<u>10,598,823</u>	

### 34. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (municipality treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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### 34. Risk management (continued)

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

### 35. Going concern

The Municipality will be financially viable in the 2015/16 financial year. Unspent conditional Grants will be banked on a separate bank account as per the provision of Division Of Revenue Act. In the adjusted budget the Municipality will make a provision for previous years unspent provisional grants.

### 36. Events after the reporting date

There were no reportable events after the reporting date.

### 37. Unauthorised expenditure

Opening balance	-	1,711,806
Unspent conditional grant not cash back	31,146	1,217,669
Over expenditure in current year	-	4,349,937
Condoned by Council	-	(7,279,412)
	<b>31,146</b>	<b>-</b>

### 38. Fruitless and wasteful expenditure

Opening balance	993,983	523,684
Interest paid	91,223	178,122
Gestetner and Canon	-	292,177
Canon	61,892	-
Condoned by Council	(1,147,098)	-
	<b>-</b>	<b>993,983</b>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>39. Irregular expenditure</b>		
Opening balance	542,293	180,200
Suppliers in the services of state	-	170,000
Expired contracts - Current year	-	48,120
No contract	1,394,647	41,464
No formal SCM	-	59,079
No formal quotation	-	40,430
False declaration of interest	-	3,000
Less: Amounts condoned	(1,936,940)	-
	<b>542,293</b>	<b>542,293</b>
<b>40. Capital Commitments</b>		
<b>Approved but not yet contracted for</b>		
- Property Plant and Equipment	6,064,249	8,132,495
<b>Contracts entered into</b>		
- Property Plant and Equipment	5,354,751	3,023,505
<b>The above capital expenditure will be financed from:</b>		
- Government Grants	11,419,000	11,156,000
<b>41. MFMA Compulsory Disclosure</b>		
<b>In terms of MFMA section 125(1)(c)</b>		
SARS amount due	356,292	543,183
Medical aid contributions due	86,884	82,125
Pension contributions due	605,037	185,093
Auditor general amount due	458,978	775,557
SALGA contributions due	950,000	450,000
	<b>2,457,191</b>	<b>2,035,958</b>
<b>Non-Compliance with the Act</b>		
· Irregular and fruitless expenditure not submitted to MEC		
· Non-payment of creditors within 30 days		
· Non-performance evaluation of functions funded by Grants		